

Olena Liakhovets,
PhD in Economics, Associate Professor at the Economic Theory
and International Economics Department,
Petro Mohyla Black Sea State University

PUBLIC PROVISION OF INSTITUTIONAL REFORMS IN THE COURSE OF ECONOMIC MODERNIZATION

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*The article is devoted to the analysis of the main components of institutional environment of modernization in Ukraine and of institutional reforms efficiency. A state and formal institutions are determined as having a predominant role in creation of a propitious institutional environment for economic development. The possible strategies of institutional transformation (long-run and short-run) and their negative consequences as the appearance of institutional lock-ins are studied in the paper.*

*The conclusions concern the low efficiency of modern institutions functioning (competitiveness provision, court independence, tax administration, corruption overcoming, infrastructure development, labor market regulation, entrepreneurship liberalization, energy security) and of their legislative and organizational support. It is indicated that certain positive changes were typical for many institutions; however, their insufficiency was caused by the lack of political will, social culture of legislation enforcement, and imperfect mechanism of resource allocation between actors of the certain reforms.*

*The analysis of Worldwide Governance Indicators for Ukraine for the period of 1996-2014 revealed that the crisis of 2008-2009 significantly worsened the achievements of public administration. In 2014 the improvement was observed in such indicators as Voice and Accountability, Government Effectiveness and Control of Corruption. There are problems left in the area of Political Stability, Regulatory Quality and Rule of Law.*

*Thus, the institutional environment formed by a state is more oriented for now on overcoming the crisis in economy and in political sphere than on economy modernization.*

**Keywords:** government, public policy, institutional environment, modernization, institution, legislation.

**Liachowec O.O. Zabezpieczenie państwowe przeksztalceń instytucjonalnych w procesie modernizacji gospodarki.**

*W artykule zbadano rolę państwa w zapewnieniu otoczenia instytucjonalnego dla modernizacji gospodarki. Na podstawie zmian w ustawodawst-*



Besides, because of inefficiency of many created earlier development institutions sooner or later they are subjected to liquidation or reduce their presence on the market independently although their meaning for modernization can be crucial, e.g. as for leasing for agricultural businesses, business incubators and techno parks.

### **Analysis of recent research**

The problem of implementation of institutional reforms is reflected in scientific studies of domestic and foreign scholars. The last are especially represented by the experts of the World Bank which do permanent monitoring of the state of the basic democratic institutions in the world countries – Worldwide Governance Indicators.

The issues of the interaction between the government and business, of new institutions formation for economic modernization, the impact of institutional environment on modernization were also studied by such Ukrainian and foreign economists as O. Vlasiuk, S. Havrov, A. Mokiy, R. Nureev, L. Olifrenko, T. Panova, L. Polischuk, O. Safronova etc. However, the complex estimation of the directions of improvement of institutional environment for modernization processes impetus in Ukraine in the modern conditions was not made.

### **Statement of research objectives**

The purpose of the study is the determination of the current state of public institutional reforms in economics and formation the directions of increase the efficiency in the course of economy modernization.

### **Results**

Modernization as a process and modernity as its consequence once emerged in the Western world become widespread globally in XX century. In its turn, as affirmed the modernization is not self-sustaining, self-progressing process. Rather, it can be considered as transference of patterns, models and achievements of developed countries to their own's [1, p. 30]. The launch the modernization processes is possible only if there is a totality of the appropriate conditions, combined by the concept of institutional environment of modernization. The significant role in this belongs to a state.

The neoclassical theory affirms that market economy without a state and market economy with the state differ by different extent of efficiency in resource allocation, and, respectively, by the distinct level of welfare of their people. But there are no fundamental differences in their functioning. According to Keynesian theory government intervention in the economy increases the effectiveness of its functioning. Due to the institutional approach the market economy cannot normally function without government regulation. It is stipulated by that fact that a state creates and supports the existence of formal institutions correcting

the market failures. In this regard the government is an important determinant of favorable institutional environment establishment for the modernization breakthrough in attempts of overcoming the retard of transformation economies from the Western countries.

There is an opinion that gradual implantation of new institutions in the course of modernization will rather negatively impact the state of the economy due to the reforms need much time (long-run reforms) [6]. In turn, the simultaneous transformation or implantation of new institutions as the fastest way of modernization is the most progressive approach. At the same time such an approach may become a reason of institutional traps emergence. They appear as a consequence of the lack of complementarity of newly created institutions and are in the nature of compensatory mechanisms of the low institutional efficiency. The problem is that they are able to settle in institutional framework and to penetrate the sphere of informal regulations.

Thereby the government should meticulously count the results of the reforms and make subsequent adjustments of institutional environment because the untimely actions may cause the proliferation of institutional traps up to the extent when their elimination will need the significant resources.

One of the most spread approaches to formation of the institutional reforms strategy is the strategy of the World Bank oriented on three basic mechanisms, which provides reforms efficiency:

1) internal rules and regulations – for example, the system of internal accounting and auditing systems, independence of the judiciary and the central bank, civil service and budgeting rules, and rules governing ombudsmen and other internal watchdog bodies;

2) “voice” and partnership – for example, decentralization to empower communities, service delivery surveys to solicit client feedback, and “notice and comment” regulatory rulemaking;

3) competition – for example, competitive social service delivery, private participation in infrastructure, alternative dispute resolution mechanisms, and privatization of certain market-driven activities [9, p. xiv].

In the context of these directions let us consider the current situation with institutional and organizational provision of Ukrainian economy modernization (Table 1).

**Institutional and organizational provision  
of Ukrainian economy modernization**

| <b>The component of institutional environment</b> | <b>Regulating organizations</b>                                                                                                                                     | <b>Legislation provision</b>                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Provision of competitive mechanism                | Antimonopoly Committee of Ukraine                                                                                                                                   | Laws of Ukraine “On Protection of Economic Competition”, “On Protection against Unfair Competition”, “On the Antimonopoly Committee of Ukraine”, “On Natural Monopolies”                                                                                                                                                                                                                                                           |
| Independence of the judiciary                     | High Council of Justice of Ukraine                                                                                                                                  | Laws of Ukraine “On the Judicial System and Status of Judges”, “On the Right to Fair Justice”, “On the State’s Guarantees of Execution of Court Resolutions”, “On Restoration of Trust in the Judicial Power in Ukraine”                                                                                                                                                                                                           |
| Tax administration                                | Ministry of Finance of Ukraine, State Fiscal Service of Ukraine                                                                                                     | Tax Code of Ukraine, Customs Code of Ukraine, Law of Ukraine “On Collection and Registration of the Single Contribution for Mandatory State Social Insurance”                                                                                                                                                                                                                                                                      |
| Overcoming corruption                             | Ministry of Justice of Ukraine, State Agency on e-governance of Ukraine National Anti-Corruption Bureau of Ukraine, Specialized Anti-Corruption Prosecutor’s Office | Laws of Ukraine “On Grounds of Corruption Prevention”, “On the Principles of State Anti-Corruption Policy in Ukraine (the Anti-Corruption Strategy) for 2014-2017”, Resolution of the Cabinet of Ministry of Ukraine “On Approval the State Program of Implementation the Principles of State Anti-Corruption Policy in Ukraine (the Anti-Corruption Strategy) for 2014-2017”, “On the National Anti-Corruption Bureau of Ukraine” |

Continuation of tab. 1

|                                 |                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                            |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Infrastructure Development      | Ministry of Infrastructure of Ukraine, Ministry of Regional Development, Building and Housing of Ukraine, National Commission on Regulation the Energy and Utilities, State Agency of Highways | Resolution of the Cabinet of Ministry of Ukraine “On Approval of Regulations of Ministry of Infrastructure of Ukraine”, Orders of Ministry of Infrastructure of Ukraine, Ministry of Regional Development, Building and Housing of Ukraine                                                                                 |
| Regulation of labor market      | State Employment Service of Ukraine, Ministry of Education and Science of Ukraine, Ministry of Social Policy of Ukraine                                                                        | Labor Code, Laws of Ukraine “On Employment”, “On Education”, “On Higher Education”                                                                                                                                                                                                                                         |
| Entrepreneurship liberalization | Ministry of Economic Development and Trade of Ukraine, Committee of Verkhovna Rada of Ukraine on Industrial Policy and Entrepreneurship, State Regulatory Service of Ukraine                   | Decree of President of Ukraine “On Some Measures to Deregulate Business Activities”, Laws of Ukraine “On the Permit System in the Field of Economic Activity”, “On the Main Principles of State Supervision (Oversight) in the Area of Commercial Activity”, “On the Principles of Regulatory Policy in Economic Activity” |
| Energy security provision       | Ministry of Energy and Coal Industry of Ukraine, National Commission on Regulation the Energy and Utilities                                                                                    | Laws of Ukraine «On Energy Industry», «On Energy-Saving», «On Alternative Energy Sources», «On Oil and Gas», The Code of Ukraine on Bowels, Order of Cabinet of Ministers of Ukraine «On National Action Plan on Renewable Energy for the Period 2020»                                                                     |

*Source: developed by the author*

The functioning of competition mechanism in Ukraine is provided by the set of laws (see Table 1), and regulation is realized by Antimonopoly Committee of Ukraine. Legislature base is characterized by relative stability; especially Law of Ukraine “On Protection of Economic Competition” adopted in 2001 had only 12 amendments for the whole period; and the Law of Ukraine “On Protection against Unfair Competition” adopted in 1996 has been changed only for 4 times. On the other hand, these laws do not actually work because of imperfection of Antimonopoly Committee functioning especially in the issues of handling complaints

about participation of businesses in the public procurements. The implementation of pilot project of e-system of public procurements ProZorro in 2015 due to the experts' estimations improved the situation of competition in this sphere and expanded the access to bargaining for businesses not linked with power structures.

Independence of the judiciary is an important institution of democracy and should provide the justice and impartiality of the adjudications. High Council of Justice of Ukraine has an impact on the assignment of the judges and their elimination or dismissal. This institution is a collegial, permanently functioning and independent body (article 1 of Law of Ukraine "On High Council of Justice of Ukraine". Laws of Ukraine "On the Right to Fair Justice", "On Restoration of Trust in the Judicial Power in Ukraine" adopted respectively in 2015 and 2014 are aimed at increasing the authority of judicial branch of Ukraine and the trust of citizens to the judicial branch of power. At the same time there are some questions of specification of regulations which will allow reducing the duration of legal proceedings in civil and criminal cases, and increasing the level of executive discipline of decisions of national courts. This factor plays an important role in creation of institutional environment of modernization where the transaction costs of business and individuals would have been lower.

The taxation as an institution of the market economy can be considered from the effectiveness for business point of view and the effectiveness of the reforms point of view. The first point means that the effectiveness of taxation and ease of administration are the essential part of the favorable environment for economic modernization. Changes in legislation in 2015-16 years were aimed at fulfillment of the demands made by IMF. As the result the tax rates on income of individuals were raised, however, the payroll taxes were reduced. Also the changes to the simplified tax system were made in spite of the requirement to remove it. In general, the predictions of Ministry of Finance of Ukraine concerning tax collection are quite optimistic but certain types of business (for example, agricultural producers) were deprived of the benefits which negatively affected the general socio-economic situation. Reforms stimulating the modernization at the present time most likely will not have the necessary effect that is why they are postponed to a later time.

The problem of corruption in Ukraine remains unsolved in spite of the changes in the structure of authorities (for example, the foundation of National Anti-Corruption Bureau, police, Specialized Anti-Corruption Prosecutor's Office). Their efficient functioning depends both on legislation and socio-economic and political factors. The adopted laws "On Grounds of Corruption Prevention", "On the Principles of State Anti-Corruption Policy in Ukraine (the Anti-Corruption Strategy) for 2014-2017" in 2014 ensured the availability of a more effective mechanism to reduce corruption than the developed in the previous laws. However, there are internal causes of the lack of efficiency of new laws which remained unsolved. They include, at first, the impossibility of full realization of

the mechanism because of insufficient level of political will and responsibility, and secondly, the lack of social culture of compliance with laws. Eliminating these causes requires a long time and efforts from the government and society.

An appropriate infrastructural provision is the necessary condition of the economy modernization because it stipulates the improvement and facilitating economic relations. Publicly provided socio-economic infrastructure requires substantial funding or development of public-private partnership to attract some investments as there is a close relationship between the economic growth and socio-economic infrastructure. In this sphere the legislation plays a key role in the system of infrastructural services quality evaluation – roads, transportation, telecommunications, electric power supply, and water supply etc. Ministry of Infrastructure has a broad range of powers including functions of services quality control, but the realization of the powers is bounded by low level of political will.

The processes of economy modernization should be provided by the appropriate personnel – engineering, medical etc., brainpower. In this regard there is a necessity of relationship harmonization among the components of labor market formation: 1) higher education; 2) availability of jobs; 3) state priorities. In this sphere Ministry of Education is aimed at technical specialties but in the result the labor market cannot provide jobs on these specialties. It requires working specialties while many enrollees choose professions easy to get or to find a job. Such contradictions generate significant imbalances in the labor market. The solution of the problem is a harmonization of national economic policy – the stimulation of high technological production, pioneering work etc. together with personnel training and investments attraction.

In the entrepreneurship activity the removal of excessive administrative barriers can cause the multiplication effect and stimulate the development of all sector of the economy. It is especially topical because of a state excessive interference which can have such repercussions as decline of motivation to entrepreneurship, investment attractiveness, its “shadowing”. The misuse of institutions (information asymmetry, manipulation of institutions, institutions subjections) can cause the distortion of the institutional environment [6].

The implementation of the policy of deregulation of entrepreneurship by way of adoption in 2011 of Law of Ukraine “On Amendments to Law of Ukraine “On the Permit System in the Field of Economic Activity” contributed to a breakthrough in the licensing system – the transit from permissive principle and declarative.

Due to Law the number of appropriate permissions was reduced (from 227 to 91). The licensing of 18 types of economic activity (freight, alternative energy, tourist services) [7, p. 190]. A new version of Law of Ukraine “On the Permit System in the Field of Economic Activity” from 02.03.2015 №222-VIII significantly facilitates the procedure of obtaining licenses, reduces the number of types of economic



activities subjected to licensing what increases the rating of Ukraine in favorable conditions for entrepreneurship development due to the World Bank ratings.

The estimation of the results of changes in legislation showed some system transformations in the entrepreneurship deregulation. However, the quality of laws and the level of their enforcement are not sufficient. To make the reforms implementation more efficient it is necessary to indicate the appropriate accents in the public economic policy. In the crisis it is rather complicated to do because the priorities of public administration differ from those needed for modernization; specifically they are the filling of the budget, provision of strategic branches of the economy, the implementation of international financial organizations' requirements.

Energy independence, energy saving technologies are the necessary condition of industrial modernization, because energy consumption is the significant part of the production costs. Since 2003 the government through Law of Ukraine "On Alternative Energy Sources" tries to stimulate the use of alternative energy sources. However, their effectiveness in the modern market conditions is rather insufficient, very often the produces need to re-equip the production and this requires a significant amount of investments. Law of Ukraine "On Energy Saving" from 01.07.1994 №74/94-VR is aimed at complex use of economic instruments and incentives for redirection of administrative, academic and technical and economic activity of enterprises, institutions and organizations to rational use and saving of energy resources.

The estimation of public authorities in 2015 made by VoxUkraine group [2] on four criteria: 1) experts estimation; 2) public estimation; 3) legislative activity; 4) implementation of the program of Cabinet of Ministers of Ukraine, showed the rating of ministries, which can indirectly testify the effectiveness of reforms. Among ministries mentioned in Table 1 the best ones are Ministry of Economic Development and Trade of Ukraine, Ministry of Finance of Ukraine, Ministry of Justice of Ukraine, Ministry of Social Policy of Ukraine. The average rating belongs to Ministry of Regional Development, Building and Housing and Ministry of Infrastructure of Ukraine. Ministry of Energy and Coal Industry of Ukraine, Ministry of Education and Science of Ukraine are the least effective.

Ministry of Finance of Ukraine succeeded in external debts restructuring and implementation of the e-Data system. In its turn, the interaction concerning the amendments to Tax Code of Ukraine and approval of a state budget were the main failures.

Ministry of Economic Development and Trade of Ukraine succeeded in the implementation of the system of electronic procurement tenders, increase the level of deregulation (through reducing the number of certificates and licenses). At the same time the economic policy was not gradual, and the privatization plan failed.

Ministry of Justice of Ukraine imposed new online services facilitating the access to administrative services of individuals and legal entities, opened new

registries. However, at this stage it is unable to support the judiciary reform.

Ministry of Social Policy of Ukraine in general had problems with efficiency of the Pension Reform.

Ministry of Education and Science of Ukraine succeeded in creation of regulatory norms for the free competition of education programs of different universities and provision of their autonomy, what can improve the situation with training and methodological support of strategic professions.

Ministry of Infrastructure started reforms in the railway transport sphere.

Ministry of Energy and Coal Industry of Ukraine succeeded in reducing the dependence of energy sphere on Russia and occupied territories. However, it continued the trade of energy and electric power with occupied territories.

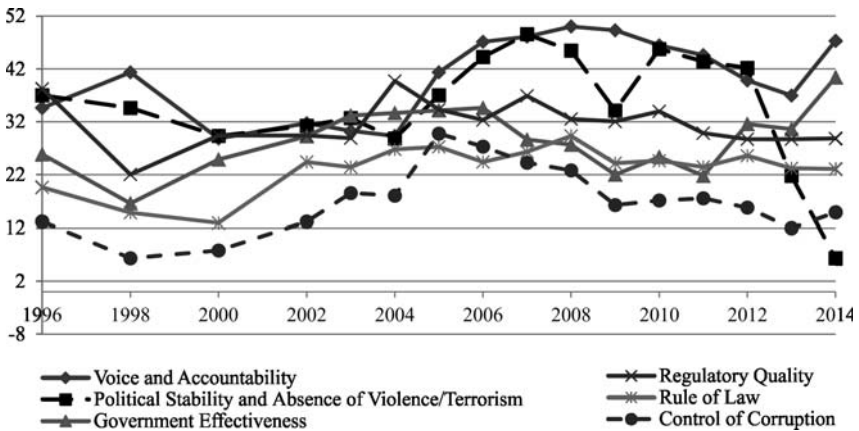
Ministry of Regional Development, Building and Housing established an effective cooperation with Ministry of Economic Development and Trade in the area of fiscal decentralization.

From the legislative activity point of view there were four the most active Ministries – Ministry of Economic Development and Trade of Ukraine, Ministry of Finance of Ukraine, Ministry of Justice of Ukraine and Ministry of Social Policy of Ukraine.

The general trends in main institutional priorities provision can be estimated with use of the World Bank’s Worldwide Governance Indicators [10] – Graph 1.

Graph 1

**Worldwide Governance Indicators, Ukraine, 1996-2014,  
percentile rank**



Source: The World Bank [10]

Their dynamics from 1998 to 2008 evidences the improvement of stimulating economic development institutions. The Government Effectiveness indicator is the exception, it started to decline in 2006, Control of Corruption indicator which reached the highest point in 2005 and has been declining up to 2014 year. The indicators of Rule of Law and Regulatory Quality are stagnant during last four years. The most significant decline was shown by Political Stability and Absence of Violence/Terrorism, which is the principal factor along with corruption affecting the investments in the Ukrainian economy. At the same time the mechanisms of electoral process and government effectiveness has improved. The values of the indicators remain at quite a low level. Taking into consideration that the maximum value is 100, Ukraine has the best indicator of 50 percentile, while the lowest value in Poland in 2014 is 71 percentile (Control of Corruption).

### **Conclusions**

1. We can summarize that development institutions in the Ukrainian economy require a special attention of state authorities because:

– the definition of institutions aims and tasks is fairly blurred, they are not completely aimed at general economic challenge solution – production modernization on the base of innovation technologies;

– there is no transparency and objective control in the institutions activity;

– financial resources, allocated to the problem solution of institutions functioning are insufficient;

– low capitalization of development institutions stipulates the reduction of their potential in the realization of big modernization and innovation projects [5, p. 50].

2. A state is a part of autopoiesis system aimed at self-reproduction due to more accomplished mechanisms of their functioning. The attainment of such state of the system it is necessary both to develop and implement the mentioned mechanisms in the form of legislation and to attach all market agents to enforce the laws.

The “creation of future” for self-reproduction of socio-economic macro-system and its security requires the overcoming of existing structural and institutional distortions: corruption, society and economy shadowing, destruction of the integrity of state macrosystem, losses of human capital and degradation of culture as a basis of development.

3. The state of components of modernization institutional environment in Ukraine evidences about rather neutral trends than about the success of public reforms. It is related to the low level of legislation enforcement by society and government bodies because in general most reforms are completely reasonable and potentially successful. Political Stability and Absence of Violence/Terrorism and Rule of Law are the most problematic spheres in Ukraine.

4. Insufficient efficiency of institutional reforms held by a state is also stipulated by the fact that the budget financing is allocated to the organizations which are not responsible for the results.

Thus, fundamental institutional transformations for economic modernization should be carried out after the crisis taking into account all necessary investments.

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